

## Message Text

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47

ACTION SS-25

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R 281330Z FEB 76

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 521

INFO AMEMBASSY BONN

AMEMBASSY JIDDA

AMEMBASSY PARIS

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

C O N F I D E N T I A L CAIRO 2670

EXDIS

NOFORN

JIDDA PASS TO SECRETARY SIMON

EO 11652: GDS

TAGS: EAID OVIP (ROBINSON, CHARLES W.) EG

SUBJECT: UNDER SECRETARY ROBINSON'S MEETING WITH ECONOMIC MINISTER

1. SUMMARY: IN MEETING ON FRIDAY, FEBRUARY 27,  
MINISTER OF ECONOMY, DR. ZAKI SHAFEI, PRESENTED TO  
UNDER SECRETARY ROBINSON CLEAREST PICTURE RECEIVED TO  
DATE OF EGYPT'S ECONOMIC PROBLEMS, PLANS, AND NEEDS.  
AT OUTSET, SHAFEI DISTRIBUTED INFORMATIVE SET OF TABLES,  
ONE OF WHICH PROJECTED CLOSING OF ESTIMATED CY 1976 BALANCE  
OF PAYMENTS GAP THROUGH RECEIPT OF ARAB AND IRANIAN AID  
TOTALLING SOME DOLLARS 2.75 BILLION. ACKNOWLEDGING THAT  
THIS WAS UNDULY OPTIMISTIC, SHAFEI AND DEPUTY MINISTER OF  
PLANNING, DR. ABDEL MEGUID, SUGGESTED NUMBER OF  
ACTIONS WHICH, ASSUMING ARAB AID OF SOME DOLLARS  
900 MILLION, WOULD LEAVE B/P GAP OF ONLY DOLLARS ONE  
BILLION. THESE SUGGESTIONS INCLUDED MODEST REDUCTION IN  
IMPORT OF CONSUMER GOODS, UTILIZATION OF HIGHER THAN  
PROJECTED LEVEL OF SHORT-TERM BANKING FACILITIES, AND  
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FINANCING FROM BILATERAL PAYMENTS COUNTRIES. SUBSEQUENT

DISCUSSION COVERED POSSIBILITIES OF REDUCING THE DOLLAR ONE BILLION GAP TO DOLLARS 600 MILLION. THESE INCLUDED MEDIUM-TERM BANKING CREDITS OF DOLLARS 250 TO 300 MILLION, IMF CREDIT OF DOLLARS 100 MILLION, AND POSSIBLE IBRD PROGRAM LOAN OF DOLLARS 75 MILLION. FYI. SHAFEI ALSO MENTIONED FIGURE OF DOLLARS 500 MILLION FOR MEDIUM-TERM BANKING CREDITS, THE FIGURE USED BY ABU ISMAIL, MINISTER OF FINANCE. SUCH AN AMOUNT WOULD REDUCE THE B/P GAP TO UNDER DOLLARS 400 MILLION. END FYI. END SUMMARY

2. UNDER SECRETARY ROBINSON, AMBASSADOR AND AIDES MET WITH MINISTER SHAFEI AND SENIOR GOE OFFICIALS FEBRUARY 27. DISCUSSION CENTERED ON STATISTICAL TABLES ON EGYPT'S BALANCE OF PAYMENTS PROBLEMS AND ON ECONOMIC REFORM MEASURES UNDERTAKEN SINCE JUNE 1975. COPIES OF TABLES AND REPORT ON REFORMS POUCHED TO DEPARTMENT. FYI. BOTH SHAFEI AND MEGUID ADVISED THAT TABLE HAD BEEN HASTILY PREPARED AND THAT, IN ANY EVENT, THEY WOULD NEED EXTENSIVE REVISION, ALTERNATELY IN LIGHT OF THE LEVEL OF ARAB AID NOW ENVISAGED. BECAUSE OF THIS THEY ASKED THAT FIGURE NOT BE SHOWN OUTSIDE USG. END FYI.

3. SHAFEI ASSURED ROBINSON THAT GOE RECOGNIZES THAT IT MUST BEAR MAJOR RESPONSIBILITY FOR PUTTING ITS ECONOMIC HOUSE IN ORDER. HE PRESENTED A SUMMARY OF "DRASTIC MEASURES" ALREADY TAKEN, INCLUDING ORGANIZATIONAL CHANGES, INCREASING PRICES OF AGRICULTURAL COMMODITIES, GASOLINE AND ALCOHOL, REFORMING BANKING SYSTEM, REDUCING BUDGET SUBSIDIES BY 131 MILLION EGYPTIAN POUNDS IN 1976 VERSUS 1975, REDUCING GOVERNMENT EXPENDITURES ON GOODS BY 100 MILLION POUNDS, SUBMISSION OF TAX REFORM MEASURES TO PEOPLE'S ASSEMBLY, REDUCTION IN THE USE OF FOREIGN SHORT-TERM BANKING FACILITIES BY ABOUT 200 MILLION EGYPTIAN POUNDS, LIBERALIZATION OF THE PARALLEL EXCHANGE MARKET, AND DE-VALUATION OF THE PARALLEL RATE.

4. SHAFEI SAID THAT DRAFT FIVE-YEAR PLAN, 1976-1980, WHICH IS TO BE AVAILABLE FOR REVIEW IN MARCH, IS AIMED AT ACHIEVING CURRENT ACCOUNT BALANCE AND CONFINING CAPITAL IMPORTS TO NORMAL PROJECT FINANCING BY 1980.  
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PLAN ASSUMES "AUSTERITY" IN GOVERNMENT EXPENDITURES AND LARGE SCALE FOREIGN AID FOR BOTH CURRENT IMPORTS AND LONG-TERM DEVELOPMENT IN EARLY YEARS.

5. DESPITE STATISTICAL PRESENTATION OF LARGE AMOUNTS OF ARAB AID, SHAFEI ADMITTED THAT HE EXPECTED SHARP DECLINE IN SUCH AID FROM 1975 LEVELS. HE LISTED AID ALREADY IN HAND FOR CY 1976 AS: USG, DOLLARS 760 MILLION;

ARAB "KHARTOUM" GRANTS, DOLLARS 185 MILLION; SAUDI ARABIA, DOLLARS 300 MILLION; AND OECD COUNTRIES, DOLLARS 150 MILLION. (ABOVE AMOUNTS REPORTEDLY ON DISBURSEMENT BASIS, BUT THIS QUESTIONABLE AT LEAST FOR U.S. FIGURE.) WITH ADDITIONAL ARAB AID OF SOME DOLLARS 400 MILLION, HOPEFULLY RESULTING FROM PRESIDENT SADAT'S CURRENT TOUR OF THE GULF STATES, REDUCTION OF IMPORTS BY SOME DOLLARS 100 MILLION, FOREGOING THE PROJECTED FURTHER REDUCTION IN BANKING FACILITIES OF DOLLARS 500 MILLION, AND SOME FINANCING FROM THE BILATERAL PAYMENTS COUNTRIES, SHAFEI FELT THAT THE BALANCE OF PAYMENTS GAP COULD BE REDUCED TO DOLLARS ONE BILLION.

6. SHAFEI SAW SOME POSSIBILITY OF OBTAINING 250-500 MILLION DOLLARS IN COMMERCIAL AREA, REDUCTION OF IMPORTS BY SOME DOLLARS 100 MILLION, FOREGOING THE PROJECTED FURTHER REDUCTION IN BANKING FACILITIES OF DOLLARS 500 MILLION, AND SOME FINANCING FROM THE BILATERAL PAYMENTS COUNTRIES, SHAFEI FELT THAT THE BALANCE OF PAYMENTS GAP COULD BE REDUCED TO DOLLARS ONE BILLION.

6. SHAFEI SAW SOME POSSIBILITY OF OBTAINING 250-500 MILLION DOLLARS IN COMMERCIAL RE-FINANCING OF SHORT TERM DEBT. HE NOTED THAT AN OFFER HAD BEEN MADE BY EUROPEAN BANKS OF LONGER TERM FINANCING AT 8 1/2 PERCENT INTEREST, EVIDENTLY UTILIZING MEDIUM TERM ARAB TIME DEPOSITS. HE ALSO SAW POSSIBILITY OF OBTAINING ABOUT 100 MILLION DOLLARS FROM IMF AND 75 MILLION DOLLARS IN PROGRAM LOAN FROM IBRD IF GOE WOULD MEET POLICY REQUIREMENTS OF THESE TWO AGENCIES. THESE STEPS WOULD REDUCE CURRENT IMPORT FINANCING NEEDS FOR CY 1976 TO ABOUT 600 MILLION DOLLARS, TO BE RAISED FROM COMBINATION OF AID FROM WESTERN EUROPE, JAPAN, IRAN AND, POSSIBLY, CURRENT ACCOUNT

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FINANCING FROM NEW ARAB-EGYPTIAN FUND ANNOUNCED IN RIYADH YESTERDAY. (LATTER FUND EVIDENTLY IS DESIGNED FOR PROJECT FINANCING FOR WHICH SHAFEI SAW NO URGENT NEED, RATHER THAN NON-PROJECT FINANCING.)

7. ROBINSON WELCOMED SHAFEI APPROACH, EXPRESSING HOPE THAT EGYPTIAN GOVERNMENT WOULD PURSUE THE COURSE SHAFEI OUTLINED. HE PROMISED POSITIVE USG SUPPORT OF EGYPTIAN INITIATIVES. WHILE WARNING OF LIKELY RESISTANCE TO GOE-USG REQUESTS FOR NON-PROJECT FINANCING IN TEHRAN, BONN, PARIS AND TOKYO, ROBINSON SAID THESE GOVERNMENTS' RESPONSES WOULD BE MORE POSITIVE TO THE DEGREE THAT EGYPT OBTAINED GOOD MARKS FROM IMF AND IBRD.

8. SHAFEI ALSO DECLARED HIS SUPPORT WITHIN THE EGYPTIAN GOVERNMENT FOR PENDING US PRIVATE INVESTMENT, PARTICULARLY GOODYEAR TIRE PLANT AND TABER METALS (ALUMINUM FABRICATION) WHICH ARE BEING DELAYED BY GOE POLICY ISSUES, AND FOR FORD MOTOR AND XEROX PROJECTS WHICH ARE BEING DELAYED AWAITING REMOVAL FROM ARAB BOYCOTT LIST.

9. IN SUBSEQUENT DINNER DISCUSSION, UNDER SECRETARY ROBINSON STRESSED IMPORTANCE OF EGYPT'S TAKING IMMEDIATE STEPS TO SOLICIT ASSISTANCE FOR CY 1976 FROM IRAN, GERMANY, JAPAN AND OTHERS. HE GAVE ASSURANCES THAT THE USG WAS FULLY PREPARED TO SUPPORT SUCH EFFORTS AND EMPHASIZED THE IMPORTANCE OF IMF AND IBRD INVOLVEMENT AS WELL. BOTH SAHFEI AND ISMAIL AGREED THAT EGYPT SHOULD MAKE THEIR CASE TO THESE COUNTRIES AS SOON AS POSSIBLE.  
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## Message Attributes

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